

NEWS RELEASE

Contact:

FOR RELEASE \_\_\_\_\_

Cline, DeVries & Allen, LLP today released an audit report on the City of Lamoni - Lamoni Municipal Utilities, Iowa.

The Utilities revenues totaled \$1,868,722 for the six months ended June 30, 2005. Revenues included \$1,805,069 from charges for service, \$16,964 from unrestricted investment earnings and \$46,689 from other general revenues.

Expenses for Utilities operations totaled \$1,786,817. All expenses were for business type activities.

A copy of the audit report is available for review in the Utilities office.

CITY OF LAMONI - LAMONI MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Financial Statements:	
Statement of Net Assets	A      8
Statement of Activities	B      9
Proprietary Fund Financial Statements:	
Statement of Net Assets	C      11-12
Statement of Revenues, Expenses and Changes in Fund Net Assets	D      13
Statement of Cash Flows	E      14-15
Notes to Financial Statements	16-23
Other Supplementary Information:	<u>Schedule</u>
Schedule of Property, Plant and Equipment	1      26
Schedule of Operating Revenues	2      27
Schedule of Operating Expenses	3      28-29
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	31-32
Schedule of Findings	34-37

City of Lamoni - Lamoni Municipal Utilities

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James Hammer	Mayor	Jan 2006
Janelle Anders	Council Member/Mayor Pro tem	Jan 2006
Mark Ballantyne	Council Member	Jan 2006
Ted Smith*	Council Member	Jan 2006
Steve Murdock	Council Member	Jan 2008
Roger Potts	Council Member	Jan 2008

\*Resigned in May 2005 and was replaced by Diane Gray

City of Lamoni - Lamoni Municipal Utilities

# CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

---

316 S. Duff Suite B – PO Box 187  
Ames, Iowa 50010  
Phone:515-233-4060 FAX:515-233-3703

13375 University Ave, Suite 203  
Clive, Iowa 50325  
Phone:515-252-7141 FAX:515-252-7073

## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the business type activities of the City of Lamoni - Lamoni Municipal Utilities, Iowa, as of and for the six months ended June 30, 2005, which collectively comprise the Utilities basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lamoni - Lamoni Municipal Utilities management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements present only the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds and are not intended to present fairly the financial position and results of operations of the City of Lamoni in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the City of Lamoni - Lamoni Municipal Utilities at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the six months then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2006 on our consideration of the City of Lamoni - Lamoni Municipal Utilities internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City of Lamoni – Lamoni Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lamoni - Lamoni Municipal Utilities basic financial

statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended December 31, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 25, 2006  
Ames, Iowa

## Basic Financial Statements

## City of Lamoni - Lamoni Municipal Utilities

## Statement of Net Assets

June 30, 2005

	Business Type Activities
Assets	
Cash, cash equivalents and investments	\$ 730,480
Receivables:	
Accounts - net	256,726
Unbilled usage	248,551
Interest	10,508
Due from other funds	125,000
Prepaid expenses	156,333
Inventories	134,199
Restricted assets:	
Cash, cash equivalents and investments	34,757
Designated assets:	
Cash, cash equivalents and investments	850,282
Capital assets (net of accumulated depreciation)	3,871,665
Total assets	<u>6,418,501</u>
Liabilities	
Accounts payable	163,749
Accrued wages and benefits	164,428
Due to other funds	125,000
Other liabilities	101,625
Long-term debt:	
Portion due or payable within one year:	
Accrued revenue bond interest	671
Revenue bonds	35,000
Portion due or payable after one year:	
Revenue bonds	40,000
Total liabilities	<u>630,473</u>
Net Assets	
Contributions from other governments	196,272
Invested in capital assets, net of related debt	3,796,665
Restricted for:	
Revenue bond sinking fund	(5,243)
Unrestricted:	
Designated for:	
Future equipment purchases/capital improvements	554,263
Insurance	20,850
Customer deposits	61,847
Revenue bond reserve fund	234,653
Undesignated	928,721
Total net assets	<u>\$ 5,788,028</u>

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

## Statement of Activities

Six months ended June 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
	Expenses	Charges for Service		Business Type Activities Total
Functions/Programs:				
Business type activities:				
Electric	\$ 899,342	933,494	-	34,152
Water	229,397	552,378	-	322,981
Sewer	135,568	212,995	-	77,427
Gas	522,510	106,202	-	(416,308)
Total business type activities	<u>\$ 1,786,817</u>	<u>1,805,069</u>	<u>-</u>	<u>18,252</u>
General revenues:				
Unrestricted investment earnings				16,964
Rent				3,548
Miscellaneous				43,141
Total general revenues				<u>63,653</u>
Change in net assets				81,905
Net assets beginning of year				4,150,186
Prior period adjustment (note 16)				<u>1,555,937</u>
Net assets end of year				<u>\$ 5,788,028</u>

See notes to financial statements.

---

City of Lamoni - Lamoni Municipal Utilities

## City of Lamoni - Lamoni Municipal Utilities

Statement of Net Assets  
Proprietary Funds

June 30, 2005

	Enterprise Funds				
	Electric	Gas	Water	Sewer	Total
Assets					
Current assets:					
Cash, cash equivalents and investments	\$ 286,316	134,288	99,734	210,142	730,480
Receivables:					
Accounts - net	155,064	52,160	33,993	15,509	256,726
Unbilled usage	184,506	16,939	31,893	15,213	248,551
Interest	2,395	2,334	2,601	3,178	10,508
Due from other funds	-	125,000	-	-	125,000
Prepaid expenses	33,399	108,382	10,322	4,230	156,333
Inventories	96,488	7,781	25,388	4,542	134,199
Total current assets	758,168	446,884	203,931	252,814	1,661,797
Restricted assets:					
Cash, cash equivalents and investments	34,757	-	-	-	34,757
Property, plant and equipment:					
Land	3,402	2,575	126,496	4,651	137,124
Plant distribution systems	4,184,678	1,063,668	2,485,805	2,766,134	10,500,285
Vehicles and equipment	131,618	127,045	67,301	42,006	367,970
North woods lake	-	-	1,220,350	-	1,220,350
Computer mapping	23,537	16,235	6,423	2,792	48,987
Home pond water shed	-	-	36,500	-	36,500
Total property, plant and equipment	4,343,235	1,209,523	3,942,875	2,815,583	12,311,216
Less accumulated depreciation	3,741,151	963,481	2,555,053	1,179,866	8,439,551
Net property, plant and equipment	602,084	246,042	1,387,822	1,635,717	3,871,665
Other assets:					
Designated assets:					
Cash, cash equivalents and investments	127,497	135,691	358,366	228,728	850,282
Total assets	\$ 1,522,506	828,617	1,950,119	2,117,259	6,418,501

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Net Assets  
Proprietary Funds

June 30, 2005

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Liabilities and Fund Balances					
Current liabilities:					
Accounts payable	\$ 100,492	52,031	8,032	3,194	163,749
Accrued wages and benefits	95,398	35,089	26,102	7,839	164,428
Due to other funds	-	-	125,000	-	125,000
Other liabilities	108,619	(7,694)	739	(39)	101,625
Total current liabilities	304,509	79,426	159,873	10,994	554,802
Current liabilities payable from restricted assets:					
Accrued revenue bond interest	671	-	-	-	671
Revenue bonds	35,000	-	-	-	35,000
Total current liabilities payable from restricted assets	35,671	-	-	-	35,671
Long-term debt:					
Revenue bonds	40,000	-	-	-	40,000
Total liabilities	380,180	79,426	159,873	10,994	630,473
Fund equity:					
Contributions from other governments	1,148	13,998	53,400	127,726	196,272
Fund balances:					
Invested in capital assets, net of related debt	527,084	246,042	1,387,822	1,635,717	3,796,665
Restricted for revenue bond sinking fund	(5,243)	-	-	-	(5,243)
Unrestricted:					
Designated for:					
Future equipment purchases/capital improvements	118,402	131,586	200,772	103,503	554,263
Insurance	9,095	4,105	5,828	1,822	20,850
Customer deposits	61,847	-	-	-	61,847
Revenue bond reserve fund	40,000	-	71,250	123,403	234,653
Undesignated	389,993	353,460	71,174	114,094	928,721
Total fund balances	1,141,178	735,193	1,736,846	1,978,539	5,591,756
Total liabilities and fund balances	\$ 1,522,506	828,617	1,950,119	2,117,259	6,418,501

## City of Lamoni - Lamoni Municipal Utilities

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Six months ended June 30, 2005

	Enterprise Funds				
	Electric	Gas	Water	Sewer	Total
Operating revenues:					
Charges for service	\$ 933,494	552,378	212,995	106,202	1,805,069
Miscellaneous	36,038	2,506	2,880	1,717	43,141
Total operating revenues	969,532	554,884	215,875	107,919	1,848,210
Operating expenses:					
Business type activities:					
Plant operation	573,025	401,798	85,141	47,174	1,107,138
Distribution	68,098	15,918	13,190	9,134	106,340
Accounting and collection	34,646	18,943	11,688	4,105	69,382
Administration	177,005	71,883	45,321	14,482	308,691
Depreciation	42,964	13,968	68,856	60,673	186,461
Total operating expenses	895,738	522,510	224,196	135,568	1,778,012
Operating income	73,794	32,374	(8,321)	(27,649)	70,198
Non-operating revenues (expenses)					
Interest income	4,179	4,192	4,662	3,931	16,964
Rent income	1,423	65	2,039	21	3,548
Interest expense	(3,604)	-	(5,201)	-	(8,805)
Total non-operating revenues (expenses)	1,998	4,257	1,500	3,952	11,707
Change in net assets	75,792	36,631	(6,821)	(23,697)	81,905
Net assets beginning of year	1,066,534	712,560	1,206,770	1,164,322	4,150,186
Prior period adjustment (note 16)	-	-	590,297	965,640	1,555,937
Net assets end of year	\$ 1,142,326	749,191	1,790,246	2,106,265	5,788,028

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Cash Flows  
Proprietary Funds

Six months ended June 30, 2005

	Enterprise Funds				Total
	Electric	Gas	Water	Sewer	
Cash flows from operating activities:					
Cash received from customers and users	\$ 832,175	689,613	203,295	103,570	1,828,653
Cash received from other revenues	36,038	2,506	2,880	1,717	43,141
Cash paid for personal services	(243,912)	(80,345)	(70,045)	(45,054)	(439,356)
Cash paid to suppliers	(642,888)	(371,690)	(82,198)	(30,546)	(1,127,322)
Net cash provided by operating activities	(18,587)	240,084	53,932	29,687	305,116
Cash flows from capital and related financing activities:					
Principal paid on revenue notes	(35,000)	-	-	-	(35,000)
Interest paid on revenue notes	(3,520)	-	-	-	(3,520)
Transfer to the City	-	-	(107,341)	(60,920)	(168,261)
Net cash used for capital and related financing activities	(38,520)	-	(107,341)	(60,920)	(206,781)
Cash flows from investing activities:					
Acquisition of capital assets	(8,408)	(2,638)	(1,108)	(597)	(12,751)
Rent income	1,423	65	2,039	21	3,548
Interest on investments	4,523	3,440	3,994	5,067	17,024
Net cash provided by investing activities	(2,462)	867	4,925	4,491	17,024
Net increase (decrease) in cash, cash equivalents and investments	(59,569)	240,951	(48,484)	(26,742)	106,156
Cash, cash equivalents and investments beginning of year	508,139	29,028	506,584	465,612	1,509,363
Cash, cash equivalents and investments end of year	\$ 448,570	269,979	458,100	438,870	1,615,519

See notes to financial statements.

## City of Lamoni - Lamoni Municipal Utilities

Statement of Cash Flows  
Proprietary Funds

Six months ended June 30, 2005

	Enterprise Funds				
	Electric	Gas	Water	Sewer	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 73,794	32,374	(8,321)	(27,649)	70,198
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation	42,964	13,968	68,856	60,673	186,461
Changes in operating assets and liabilities:					
Accounts receivable	(4,710)	40,920	2,241	2,051	40,502
Unbilled usage	(96,609)	96,315	(11,941)	(4,683)	(16,918)
Inventory and prepaid expenses	(53,350)	32,568	(5,624)	(2,295)	(28,701)
Accounts payable	9,559	22,100	1,224	2,877	35,760
Accrued payroll	(2,295)	(1,630)	704	(13)	(3,234)
Compensated absences	22,641	12,632	6,274	(1,204)	40,343
Other liabilities	(10,581)	(9,163)	519	(70)	(19,295)
Net cash provided (used) by operating activities	\$ (18,587)	240,084	53,932	29,687	305,116
Reconciliation of cash, cash equivalents and investments at year end to specific assets included on the statement of net assets:					
Current assets:					
Cash, cash equivalents and investments	\$ 286,316	134,288	99,734	210,142	730,480
Restricted assets:					
Cash, cash equivalents and investments	34,757	-	-	-	34,757
Designated assets:					
Cash, cash equivalents and investments	127,497	135,691	358,366	228,728	850,282
Cash, cash equivalents and investments at year end	\$ 448,570	269,979	458,100	438,870	1,615,519

## City of Lamoni - Lamoni Municipal Utilities

### Notes to Financial Statements

June 30, 2005

#### (1) Summary of Significant Accounting Policies

##### A. General

The accompanying financial statements include only the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds of the City of Lamoni. Prior to January 1, 1994 Lamoni Municipal Utilities was considered a component unit of the City of Lamoni which consisted of the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds of the City of Lamoni and was governed by a separate Board of Trustees. As of January 1, 1994, the Board of Trustees of Lamoni Municipal Utilities was officially discontinued. As of that date, the Lamoni Municipal Utilities ceased to be a separate legal entity and a component unit of the City of Lamoni. Lamoni Municipal Utilities is now part of the City of Lamoni and is governed by the City Council. The Utilities provides electric, gas, water and sewer service to the citizens of Lamoni, Iowa. An audit of the cash basis financial statements was performed on the City of Lamoni for the year ended June 30, 2005. No portion of the financial information for the six months ended June 30, 2005, has been included in these financial statements. A copy of the City's audited financial statements may be obtained from the City's office.

##### A. Reporting Entity

For financial reporting purposes, the Lamoni Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

##### Jointly Governed Organizations

The Utilities participates in one jointly governed organization that provides goods or services to the customers of the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. One Utilities employee is a member of the South Iowa Municipal Electric Cooperative Association Board.

##### B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the Utilities assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of the Utilities electric system.

The Water Fund is used to account for the operation and maintenance of the Utilities water system.

The Sewer Fund is used to account for the operation and maintenance of the Utilities sewer system.

The Gas Fund is used to account for the operation and maintenance of the Utilities gas system.

#### C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due.

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Investments – The cash balances of most Utilities funds are pooled and invested. Interest earned on investments is recorded in the appropriate Enterprise Fund. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. The allowance for uncollectible accounts at June 30, 2005 was \$8,000. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of their operations, the Electric Utility, Gas Utility, Water Utility and Sewer Utility Funds had transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Inventories – Inventories are valued at the lower of cost (using the first-in/first-out method) or market. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Designated Assets – Funds set aside for payment of Enterprise Fund capital assets, insurance and debt. Other designated assets include customer deposits designated for refund to customers.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable bond resolutions.

Capital Assets – Capital assets, which include property, equipment and vehicles are reported in the applicable business type activities columns in the Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utilities as assets with estimated useful lives in excess of five years.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Plant and distribution systems	20-50 years
Vehicles and equipment	5-10 years

Compensated Absences – Utilities employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the proprietary fund financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005.

Long-term Liabilities – In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business type activities column in the Statement of Net Assets.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## (2) Cash and Pooled Investments

The Utilities deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City of Lamoni – Lamoni Municipal Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

Interest rate risk – The Utilities’ investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

Credit risk – The Utilities’ investment in the Iowa Public Agency Investment Trust is unrated.

(3) Capital Assets

Capital assets activity for the six months ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 137,124	-	-	137,124
Total capital assets not being depreciated	137,124	-	-	137,124
Capital assets being depreciated:				
Plant distribution systems	10,496,063	4,222	-	10,500,285
Vehicles and equipment	359,441	8,529	-	367,970
North woods lake	1,220,350	-	-	1,220,350
Computer mapping	48,987	-	-	48,987
Home pond water shed	36,500	-	-	36,500
Total capital assets being depreciated	12,161,341	12,751	-	12,174,092
Less accumulated depreciation for:				
Plant distribution systems	7,341,271	154,185	-	7,495,456
Vehicles and equipment	357,579	1,101	-	358,680
North woods lake	497,067	30,508	-	527,575
Computer mapping	48,987	-	-	48,987
Home pond water shed	8,186	667	-	8,853
Total accumulated depreciation	8,253,090	186,461	-	8,439,551
Total capital assets being depreciated, net	3,908,251	(173,710)	-	3,734,541
Total capital assets, net	\$ 4,045,375	(173,710)	-	3,871,665

Depreciation expense was charged to functions of the Utilities as follows:

Business type activities:	
Electric	\$ 42,964
Gas	13,968
Water	68,856
Sewer	60,673
Total depreciation expense - business type activities	<u>\$ 186,461</u>

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the six months ended June 30, 2005 is as follows:

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 110,000	-	35,000	75,000	35,000

#### Revenue bonds

One issue of unmatured revenue bonds, totaling \$75,000 is outstanding at June 30, 2005. These bonds bear interest at rates of 4.00-7.00% and mature in varying annual amounts ranging from \$35,000 to \$40,000, with the final maturity due in the year ending June 30, 2007.

The resolution providing for the issuance of the electric revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$39,000 is required to be maintained in an electric revenue bond reserve account. The account is restricted for the purpose of paying the bond principal and interest payments whenever, for any reason, the funds in the electric revenue bond sinking account is insufficient to pay such principal and interest when due.

During the six months ended June 30, 2005, the Utilities was not in compliance with the revenue bond provisions.

Details of revenue bonds payable at June 30, 2005 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2005
Business type activities:						
Revenue bonds:						
Electric Revenue Bonds	June 1, 1992	4.00-7.00%	June 1, 2007	\$35,000-40,000	\$ 400,000	\$ 75,000

A summary of the annual revenue bonds principal and interest requirements to maturity is as follows:

Year Ending June 30,	Electric Revenue Bonds	Interest
2006	\$ 35,000	3,680
2007	40,000	1,280
Total	\$ 75,000	4,960

(5) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
Gas	Water	<u>\$ 125,000</u>

(6) Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities contributions to IPERS for the six months ended June 30, 2005 and the years ended December 31, 2004 and 2003 were \$16,640, \$31,781 and \$31,369, respectively, equal to the required contributions for each period.

(7) Interest Cost

During the six months ended June 30, 2005, no interest costs were capitalized since there were no qualifying assets. Interest cost incurred and charged to expenses for the six months ended June 30, 2005 totaled \$8,805.

(8) Workers' Compensation

The City of Lamoni – Lamoni Municipal Utilities is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. On June 15, 1988, the IMWCA issued \$33 million in bonds and used the proceeds to create a claims payment fund. The members own an interest of the assets of the claims payment fund. The general obligation debt was retired in past years.

(9) Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(10) State Revolving Fund (SRF) Loan

During the year ended December 31, 2001, the Utilities received \$298,000 from the Iowa Department of Natural Resources Drinking Water State Revolving Fund loan program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their water improvement project. The Utilities will repay the loan to the City

who will repay the loan program. It is the sole responsibility of the City of Lamoni to repay the loan because it is a general obligation of the City.

(11) Water Revenue Refunding Bonds

During the year ended December 31, 2004, the Utilities received \$700,000 to refund the 1993 Water Revenue Bonds. The bond proceeds were received directly by the Utilities, but the loan agreement is in the name of the City of Lamoni. The Utilities will make payments on the bonds to the City who will repay the lender. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(12) State Revolving Fund (SRF) Loan

During the year ended December 31, 2002, the Utilities received \$594,000 and \$514,000 from the Iowa Department of Natural Resources Sewage Treatment Works Financing Program. The loan was made to the City of Lamoni and the City passed the money through to the Utilities for their wastewater treatment system project. The Utilities will repay the loan to the City who will repay the loan program. The loan is to be paid from the revenues of the Utilities and does not represent a general obligation of the City.

(13) Related Party Transactions

The Utilities had no business transactions between the Utilities and City officials during the six months ended June 30, 2005.

(14) Contributions From Other Governments

Contributions restricted for capital assets are credited directly to contributions. Depreciation recognized on the capital assets acquired or constructed through contributions is offset against contributions.

(15) Subsequent Events

In December 2005, the City Council approved resolutions to convert Lamoni Municipal Utilities to the cash basis of accounting and to a fiscal year end of June 30, commencing on July 1, 2005.

(16) Prior Period Adjustment

The 2002 SRF Loans and the 2005 Water Revenue Bonds were previously recorded as a liability of the Utilities; however, these debt issues are in the name of the City of Lamoni and do not represent a liability of the Utilities only. An adjustment has been made to remove the debt from the beginning long-term debt and net assets accounts in the Water Utility and Sewer Utility Funds to correct this misstatement.

## Other Supplementary Information

City of Lamoni - Lamoni Municipal Utilities

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Property, Plant and Equipment

June 30, 2005

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Cost:					
Land	\$ 3,402	2,575	126,496	4,651	137,124
Plant and improvements	915,890	108,451	944,088	1,577,711	3,546,140
Plant production equipment	918,892	66,081	290,194	267,884	1,543,051
Engineering service	22,681	-	-	-	22,681
Distribution system	445,924	228,094	204,155	21,133	899,306
Distribution system extensions	1,799,405	661,043	1,047,368	899,406	4,407,222
Interconnection	81,886	-	-	-	81,886
Mobile equipment	39,224	60,474	31,233	21,703	152,634
Office equipment	77,943	41,843	26,381	15,416	161,583
Tools	14,451	24,727	9,687	4,887	53,752
North woods lake	-	-	1,220,350	-	1,220,350
Computer mapping	23,537	16,235	6,423	2,792	48,987
Home pond watershed	-	-	36,500	-	36,500
Total	\$ 4,343,235	1,209,523	3,942,875	2,815,583	12,311,216
Accumulated depreciation:					
Plant and improvements	\$ 613,001	72,474	706,962	212,576	1,605,013
Plant production equipment	889,608	57,041	266,069	250,825	1,463,543
Engineering service	22,681	-	-	-	22,681
Distribution system	399,291	214,922	149,940	15,762	779,915
Distribution system extensions	1,584,523	478,227	823,139	656,529	3,542,418
Interconnection	81,886	-	-	-	81,886
Mobile equipment	39,225	60,474	31,233	21,703	152,635
Office equipment	73,477	39,411	25,304	14,843	153,035
Tools	13,922	24,697	9,555	4,836	53,010
North woods lake	-	-	527,575	-	527,575
Computer mapping	23,537	16,235	6,423	2,792	48,987
Home pond watershed	-	-	8,853	-	8,853
Total	\$ 3,741,151	963,481	2,555,053	1,179,866	8,439,551

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Revenues

Six months ended June 30, 2005

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Charges for service:					
Electric and gas:					
Residential	\$ 419,294	330,809	-	-	750,103
Commercial	411,666	107,163	-	-	518,829
Power	70,740	37,979	-	-	108,719
Rural	27,678	-	-	-	27,678
Security lights	4,116	-	-	-	4,116
Interruptible	-	61,057	-	-	61,057
Transportation	-	15,370	-	-	15,370
Water	-	-	212,995	-	212,995
Sewer rental	-	-	-	106,202	106,202
	933,494	552,378	212,995	106,202	1,805,069
Miscellaneous:					
Discounts and penalties	429	675	149	80	1,333
Merchandise sales and services	323	14	8	-	345
Miscellaneous	35,286	1,817	2,723	1,637	41,463
	36,038	2,506	2,880	1,717	43,141
Total operating revenues	\$ 969,532	554,884	215,875	107,919	1,848,210

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Expenses

Six months ended June 30, 2005

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Plant operation:					
Operation:					
Supervision and labor	\$ 55,214	-	21,633	18,549	95,396
Purchased power	479,078	-	-	-	479,078
Fuel	10,260	395,094	-	-	405,354
Utilities	6,319	1,128	12,117	12,071	31,635
Chemicals	-	-	29,005	-	29,005
Supplies	1,457	238	1,901	983	4,579
Insurance	16,285	3,282	6,747	2,655	28,969
Miscellaneous	157	-	2,965	2,649	5,771
	<u>568,770</u>	<u>399,742</u>	<u>74,368</u>	<u>36,907</u>	<u>1,079,787</u>
Maintenance:					
Labor	3,295	1,913	5,694	3,724	14,626
Materials and contract labor	960	143	5,079	6,543	12,725
	<u>4,255</u>	<u>2,056</u>	<u>10,773</u>	<u>10,267</u>	<u>27,351</u>
Total plant operation	<u>\$ 573,025</u>	<u>401,798</u>	<u>85,141</u>	<u>47,174</u>	<u>1,107,138</u>
Distribution:					
Operation:					
Supervision and labor	\$ 16,705	9,533	6,174	3,142	35,554
Truck and equipment	5,065	1,859	1,139	929	8,992
Supplies	1,944	293	491	60	2,788
Insurance	628	297	149	80	1,154
Property taxes	15,814	487	-	-	16,301
Miscellaneous	783	657	188	341	1,969
	<u>40,939</u>	<u>13,126</u>	<u>8,141</u>	<u>4,552</u>	<u>66,758</u>
Maintenance:					
Labor	18,377	1,030	3,141	2,309	24,857
Materials and contract labor	8,782	1,762	1,908	2,273	14,725
	<u>27,159</u>	<u>2,792</u>	<u>5,049</u>	<u>4,582</u>	<u>39,582</u>
Total distribution	<u>\$ 68,098</u>	<u>15,918</u>	<u>13,190</u>	<u>9,134</u>	<u>106,340</u>

See accompanying independent auditors' report.

## City of Lamoni – Lamoni Municipal Utilities

## Schedule of Operating Expenses

Six months ended June 30, 2005

	Electric Utility Fund	Gas Utility Fund	Water Utility Fund	Sewer Utility Fund	Total
Accounting and collection:					
Salaries and wages	\$ 21,010	10,116	5,073	2,706	38,905
Meter reading labor	3,982	4,286	4,062	-	12,330
Office supplies	2,393	1,198	576	310	4,477
Telephone	1,914	766	689	394	3,763
Professional fees and contracts	5,183	2,496	1,248	672	9,599
Miscellaneous	164	81	40	23	308
Total accounting and collection	\$ 34,646	18,943	11,688	4,105	69,382
Administration:					
Salaries and wages	\$ 14,351	6,973	3,456	1,817	26,597
FICA and IPERS	20,335	6,222	7,213	4,672	38,442
Council fees	150	150	150	150	600
Administrative publications and memberships	4,958	2,334	428	49	7,769
Health and life insurance	71,148	29,070	10,460	6,016	116,694
Use tax expense	608	156	-	165	929
Employee education and travel	2,413	4,356	1,236	576	8,581
Holiday, vacation, personal, sick and emergency leave	38,212	21,419	9,725	710	70,066
Inventory control, materials and labor	1,629	785	392	192	2,998
City payment	16,128	-	-	-	16,128
City street lighting	6,000	-	-	-	6,000
Miscellaneous	1,073	418	12,261	135	13,887
Total administration	\$ 177,005	71,883	45,321	14,482	308,691

Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

# CLINE, DEVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

---

316 S. Duff Suite B – PO Box 187  
Ames, Iowa 50010  
Phone:515-233-4060 FAX:515-233-3703

13375 University Ave, Suite 203  
Clive, Iowa 50325  
Phone:515-252-7141 FAX:515-252-7073

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the business type activities of the City of Lamoni - Lamoni Municipal Utilities, Iowa, as of and for the six months ended June 30, 2005, and have issued our report thereon dated January 25, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lamoni - Lamoni Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lamoni - Lamoni Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-05 and II-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lamoni - Lamoni Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-

compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities operations for the six months ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lamoni - Lamoni Municipal Utilities and other parties to whom the City of Lamoni - Lamoni Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lamoni - Lamoni Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 25, 2006  
Ames, Iowa

City of Lamoni - Lamoni Municipal Utilities

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Six months ended June 30, 2005

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, one of which is considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Six months ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-05     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City of Lamoni - Lamoni Municipal Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review the procedures as suggested.

Conclusion - Response acknowledged. The City of Lamoni - Lamoni Municipal Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-05     Dual Signatures - Although the City Council approved a policy requiring dual signatures on all Utilities checks issued over \$25,000, we noted that the Utilities did not always use dual signatures as required.

Recommendation - The Utilities should comply with the policy and use dual signatures on all checks issued over \$25,000.

Response - We will do so.

Conclusion - Response accepted.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Six months ended June 30, 2005

Part III: Other Findings Related to Required Statutory Reporting:

III-A-05 Official Depositories – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the six months ended June 30, 2005.

III-B-05 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements noted were for refreshments.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the Utilities should establish written policies and procedures, including the requirement for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-C-05 Travel Expense – No disbursements of Utilities money for travel expenses of spouses of Utilities employees were noted.

III-D-05 Business Transactions – No business transactions between the Utilities and Utilities employees or City officials were noted.

III-E-05 Bond Coverage – Surety bond coverage of Utilities employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

III-F-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.

III-H-05 Revenue Bonds – The resolution providing for the issuance of the 1992 electric revenue bonds requires that monthly transfers be made to an electric revenue bond sinking account until the minimum balance is met. This account is below the minimum required balance by approximately \$8,560 at June 30, 2005.

Recommendation – The Utilities should make the necessary transfers to bring the electric revenue bond sinking account to the required balance.

Response – We will do so.

City of Lamoni - Lamoni Municipal Utilities

Schedule of Findings

Six months ended June 30, 2005

Conclusion – Response accepted.

- III-I-05 Outstanding Checks – Per Chapter 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The Utilities did not do this.

Recommendation – The Utilities should comply with Chapter 556.11 of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.